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SUBJECT: ECOGAS PRIVATIZATION -- A DRY RUN FOR ECOPETROL?

REF: BOGOTA 7497

¶1. A pension fund consortium bidding for the ownership of Ecogas, Colombia's state-owned natural gas transportation company, failed to meet the minimum required purchase price for the company. Under Colombia's constitution, the failure of the "solidarity sector" (pension funds or unions) to meet the minimum price allows the GOC to view offers from private domestic and international bidders, which it will do in a second round of bidding set to take place at the end of November.

¶2. Ecogas owns, maintains and operates approximately 3644 kilometers of pipeline, representing 70 percent of Colombia's gas pipeline network. In 2003, President Uribe signed a law to privatize ECOGAS with the goal of making the company more productive and efficient.

¶3. Article 60 of Colombia's constitution requires that pension funds and unions be given first opportunity to bid during the privatization of state-held assets. In the case of Ecogas, six large Colombian pension funds offered a consortium bid of USD 823 million. As revealed in a public ceremony, the offer fell short of the GOC's required minimum bid. The failure of the Colombian pension funds to come up with an acceptable price allows the GOC to open the bidding to private domestic and foreign investors. This next round of bidding will be evaluated on November 29th.

¶4. Comment- Although the GOC's official asking price for Ecogas remains under seal, GOC public comments revealed the pension fund consortium fell short of the required minimum bid by nearly USD 80 million. Subsequent bidding by the private sector (the pension funds could also bid again, if they choose) should result in offers that easily exceed the required minimum. While the details of the Ecopetrol sale (Reftel) have not been determined by Congress, a similar bidding process will likely be used for the partial privatization of Ecopetrol to comply with the Article 60 requirement to offer first bidding rights to union or pension fund bidders. End Comment.

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